

THE BUSINESS FORUM

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TAXING CHARITABLE ORGANIZATIONS

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TAXING CHARITABLE ORGANIZATIONS

1. Any commercial business activity should be taxed.
2. Some charitable organisations engage in commercial business activity, but seldom for profit. The income of organisations which engage in both charitable and commercial activity can be apportioned for purposes of tax allocation and liability.
3. Based on the premise that no profit = no tax, it may seem that there is no problem. However, charitable organisations which undertake commercial activity are competing on advantageous terms with commercial enterprises, since the former pay no tax (whether or not they make a profit).
4. The 1986 Tariff Commission of Enquiry revealed that the charitable sector (mainly Christian mission societies) contributed almost half of Zambia's total expenditure on health, education and welfare. At that time, Government contributed most of the balance (there being then little in the way of private healthcare and educational activity).
5. It would be useful to determine the current position on expenditure on health, education and welfare. Whereas there are now many more private schools and clinics, there is still an increasing need for charity contributions to combat poverty and disease, HIV/AIDS being a big factor.
6. Most countries do not tax genuine charity since, by definition, the activity is not supposed to be profit-making. If the activity is for profit, then it is not charity.
7. Care needs to be exercised in dealing with the tax status of charities because:
 - Zambia is reliant on the aid it receives from charitable organisations;
 - If levels of charity are reduced, Government would have to raise more revenue to compensate for the short fall;
 - Some charitable organisations follow the example of their national Governments in insisting that none of their contributions go towards paying taxes in the host country;
 - Should charitable organisations relocate elsewhere (because of perceived tax benefits) Zambia, whilst suffering from a reduction in

“free” goods and services provided locally by the organisations, would become the recipient of a greater volume of imported “charitable” goods (duty and import VAT free or “funded” under current arrangements) to the detriment of locally produced goods; and,

- The considerable lobbying power of organisations such as Christian Missions in Many Lands (CMML) and the Churches Medical Association of Zambia (CMAZ), etc. should not be underestimated.
8. Government (ZRA) should re-examine its Customs, VAT and Income Tax exemption lists annually, reviewing the status of dormant, dubious or delinquent organisations. As things stand, the lists are merely added to each year and there is little monitoring. With regard to Section 41 approvals (for Income Tax relief for charities), submission of accounts and a tax return should be a requirement for annual renewal of the concession. The current example of DAPP exemplifies the need for continuous monitoring.
 9. There is probably a bigger problem with concessions for commercial enterprises, e.g. investors and aid-funded projects. Many such enterprises continue to enjoy Customs, VAT and perhaps Income Tax relief beyond the provisions granted in agreements or by virtue of Investment Licences. The out-of-date lists published in the Third and Fourth Schedules to the Customs and Excise (General) Regulations 2000 (published as Statutory Instrument No. 54 of 19th May 2000) illustrate the extent of the likely problem.
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